M.E.P.C. CANADIAN PROPERTIES LIMITED

ANNUAL REPORT 1969

M.E.P.C. CANADIAN PROPERTIES LIMITED

Board of Directors

C. E. M. Hardie, C.B.E., F.C.A.
Metropolitan Estate and Property Corporation Limited, London, England

W. G. Tucker, Q.C.
Fraser & Beatty, Toronto, Ontario

Peter A. Anker, F.R.I.C.S.
M.E.P.C. Canadian Properties Limited, Toronto, Ontario

P. A. Cumyn
Royal Securities Corporation Limited, Montreal, P.Q.

R. J. Dickinson, M.A.
Metropolitan Estate and Property Corporation Limited, London, England

Gordon C. Gray, C.A.
Toronto Dominion Centre Limited, Toronto, Ontario

The Hon. Angus Ogilvy
Metropolitan Estate and Property Corporation Limited, London, England

A. Ross Poyntz, F.C.I.A
The Imperial Life Assurance Company of Canada, Toronto, Ontario

D. N. Stoker
Nesbitt, Thomson and Company Limited, Montreal, P.Q.

D. A. Thompson, Q.C.
Thompson, Dilts and Company, Winnipeg, Manitoba

Executive Officers

C. E. M. Hardie, C.B.E., F.C.A.—*Chairman*

W. G. Tucker, Q.C.—*Deputy Chairman*

P. A. Anker, F.R.I.C.S.—*President and General Manager*

M. H. Morgan, A.A.I., F.R.I.—*Vice-President Administration*

R. A. Greiner, F.R.I.—*Vice-President, Central Region*

P. W. Skynner, F.R.I.—*Vice-President, Western Region*

C. Alec Shearson, C.A.—*Secretary*

Head Office

365 Bay Street, Toronto 1, Ontario

Auditors

Campbell, Sharp, Milne & Co.
Chartered Accountants

Stock Transfer Agent and Registrar

The Royal Trust Company

Bond Trustees

The Royal Trust Company
Montreal Trust Company

Shares Listed

The Toronto Stock Exchange

M.E.P.C. Canadian Properties Limited is a subsidiary company of Metropolitan Estate and Property Corporation Limited, London, England.

REPORT OF THE PRESIDENT TO SHAREHOLDERS

Financial Results

Again I am pleased to report another year of increase in our earnings and also in our real estate holdings. To comply with the various recommendations of the Ontario Securities Commission and the Institute of Chartered Accountants your Directors considered it advisable to change our accounting procedures in relation to Deferred Taxation and also to adopt sinking fund depreciation. These changes have been mentioned in the notes to the financial statements. In order to obtain comparability it was considered advisable to restate the 1968 earnings on the same accounting basis as the Company has adopted in 1969.

To summarize the financial results very simply they indicate another increase in net operating income of around 12% and an increase in assets of around 33%. The results represent an increase in earnings from 27 cents to 35 cents per common share under the old method of accounting and from 18.9 cents to 21.2 cents under the new method. I would also like to draw attention to the very satisfactory Cash Flow which has increased from 20 cents to 31 cents per common share after full debt service.

Again may I remind our shareholders that our real estate holdings are still recorded at their original cost. An internal valuation of the Company's properties as at 31st March, 1969 indicated an appreciation in value of over 29% of book value and on other pages of this report is supplied more information as to the diversification and location of these properties.

Analysis of Operations

Also on those pages of this report your Directors have set out the Company's scope of operation and, in particular, emphasizing the fact that M.E.P.C. is still basically an investment company—either acquiring or developing real estate with the intent of holding the completed projects as investments. As a consequence the earnings pattern continues to be one of conservative growth rather than a fluctuating pattern that is seen in many companies who depend upon sales for their profits. The following is a brief summary of the main activities for the past fiscal year.

(a) A continuation of the major development programme which was started about eighteen months ago. Substantial commercial projects are currently under construction for the company in Vancouver, Calgary, Winnipeg, Ottawa and Quebec City. These projects total in all over $20 million and I must add that for each development, commitments have been arranged for satisfactory long term finance. Because of their size some of these developments will not be completed for a few months, therefore, we cannot expect the full benefit of their income for a year or so. However, at this stage the developments appear most exciting with excellent prospects to come.

(b) In December, 1968, it was agreed to sell M.E.P.C.'s interest in our joint company IMPCO Properties Limited to the Imperial Life. This meant a reduction in our rental income which had to be replaced in our portfolio through our own investment programme. However, this was not accomplished until the latter part of our financial year and accordingly the full benefit of the rental income cannot be shown in the current year's accounts.

(c) In March, 1969, your Directors decided to raise additional funds to enable the Company to continue with its development programme. It appeared at that time conventional mortgage funds were becoming increasingly hard to obtain and as a consequence in March, 1969, the Company issued $7,000,000 of 8% Sinking Fund Debentures, Series A with share purchase warrants attached. The issue proved to be most successful and as a result, the Company is now in a very strong financial position.

Real Estate in Canada

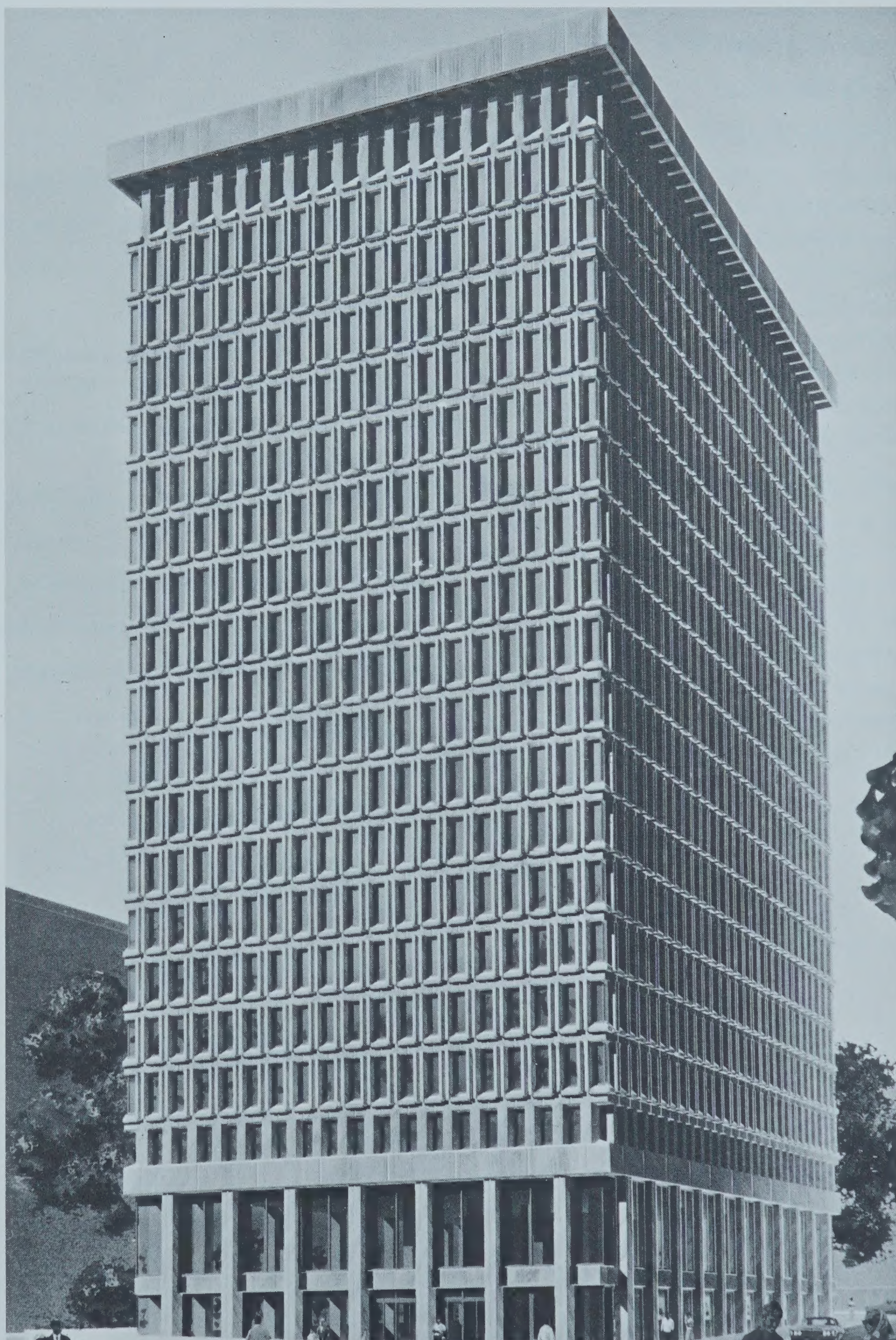
The past year has not been an easy one for any business in Canada, but it would seem the real estate industry suffered several additional and unique problems of its own. There were many long and costly strikes in the construction industry; interest rates on mortgage loans soared upwards and even today no one knows if they have settled down; a general shortage of cash and credit appeared not only in Canada but throughout the world; many cities in Canada began to see substantial slowdowns in construction together with a slackening demand for accommodation and consequently higher vacancy factors.

Many new real estate companies appeared on the scene and we have already witnessed substantial fluctuations in some share prices. I would respectfully suggest that many of these fluctuations will continue until it is possible for the investment analysts to clearly differentiate between real estate investment companies as compared with those companies in the development field. Also, misunderstandings will occur until some realistic guide lines are established for accounting procedure in the real estate field. Such guide lines should come, in my opinion, with advice from the real estate profession, not only the accounting profession. I might add that M.E.P.C. has offered its advice on this subject through the medium of the Urban Development Institute.

The Future

As already mentioned the Company has a substantial development programme currently in hand. These projects have to be completed and leased. Owing to the current cost of borrowing money it is very hard to make new projects economically viable, therefore, the Company is currently con-

BANK OF MONTREAL BUILDING, QUEBEC CITY—
A major office and shopping complex currently under construction



centrating on its current projects together with the acquisition of investments already financed or alternatively arranging lease-backs at returns which reflect current borrowing rates.

It is becoming very plain that certain cities across Canada are much more attractive for real estate investment than others. It is no longer just the question of higher taxes in certain areas than others or, even higher vacancy rates. The general business climate of each municipality is a very important consideration as well as the measure of co-operation received from the various governmental officials. It is the opinion of your Directors that M.E.P.C. must concentrate on the areas of appreciation and proven economic growth which in turn means increasing real estate values.

Personnel

During the past year, three senior members of our staff were appointed Vice Presidents to give more local control and advice. A new branch was also opened in Victoria, British Columbia, to supervise the initial leasing of our projects in that city.

It is with regret that I have to announce the resignation of Mr. R. J. Dickinson, M.A., from the Board of Directors owing to the fact he wishes to reduce his business commitments. Mr. Dickinson is the Past Chairman of our parent company and has given a considerable amount of his time to encourage the growth of the Canadian Company. An invitation has been extended to Mr. R. H. Sheppard, F.A.I., the Managing Director of Metropolitan Estate and Property Corporation Limited, to replace Mr. Dickinson. Mr. Sheppard has been active in the real estate profession for over forty years and I am sure M.E.P.C. Canadian Properties Limited will benefit a great deal from his considerable experience.

I would like to conclude by expressing a very sincere thank you to all members of the staff.

November 14th, 1969.

P. A. Anker
President

consolidated balance sheet

September 30, 1969

ASSETS	1969	*Comparative 1968*
Cash	**$ 83,702**	$ 577,152
Bank deposit receipts and other short-term investments	**2,410,180**	1,789,125
First mortgages receivable—due 1969 and 1970	**1,167,000**	—
Rents and sundry receivables	**264,995**	291,565
Prepaid expenses	**190,257**	180,943
Properties at cost, less accumulated depreciation of $3,296,268; 1968—$2,924,098. (note 2)	**58,516,440**	48,566,156
Finance company notes and bank deposit certificate—maturing May 1971	**5,000,000**	—
Investments in and advances to affiliated companies		
Shares—at cost	**25,001**	—
First mortgage receivable and advances	**1,307,688**	327,819
Other first mortgages and agreement for sale	**220,737**	227,074
Unamortized financing and other expenses	**820,502**	505,704
	$70,006,502	$52,465,538

On behalf of the Board

P. A. Anker, Director

W. G. Tucker, Director

LIABILITIES		*Comparative 1968*
Bank loans	**$ 4,950,000**	$ 1,515,000
Demand loans—secured	**425,000**	800,000
Accounts payable and accrued liabilities	**2,193,474**	1,261,918
Income taxes payable	—	154,347
Long-term debt (note 3)	**44,522,865**	32,357,867
Deferred income taxes (note 4)	**1,733,000**	735,000
Minority interest in subsidiary company	**23,817**	22,711
	53,848,156	36,846,843
SHAREHOLDERS' EQUITY		
Capital stock (notes 5 and 6)		
Preference shares	**2,441,875**	2,500,000
Common shares	**9,998,421**	9,847,401
Surplus	**3,718,050**	3,271,294
	16,158,346	15,618,695
	$70,006,502	$52,465,538

AUDITORS' REPORT

We have examined the consolidated balance sheet of M.E.P.C. Canadian Properties Limited and its subsidiaries as at September 30, 1969 and the consolidated statements of income, surplus and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at September 30, 1969 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a consistent basis, except for the changes which we approve, described in notes 2 and 4 to the financial statements.

Toronto, Canada,
October 31, 1969.

CAMPBELL, SHARP, MILNE & CO.,
Chartered Accountants.

consolidated statement of surplus

for the year ended September 30, 1969

		Comparative 1968
BALANCE, beginning of year	**$3,271,294**	$2,431,027
Add: Net income for the year	**964,750**	870,035
Deferred income tax set aside in prior years (note 4)	—	500,000
Gain on purchase for cancellation of preference shares (note 5)	**15,362**	—
	4,251,406	3,801,062
Less: Dividends paid—preference shares	**148,463**	150,000
—common shares	**384,893**	379,768
	533,356	529,768
BALANCE, end of year	**$3,718,050**	$3,271,294

consolidated statement of income

for the year ended September 30, 1969

RENTAL INCOME

Less: Direct property expenses (heating, lighting, insurance, repairs and maintenance, municipal taxes, etc.)

Property administration

NET RENTAL INCOME

Less: Interest expense

Interest income

Administration expense

Sundry expense

NET OPERATING INCOME

Depreciation—buildings (note 2)

NET INCOME before the following items

Gain on sale of property

Gain on disposal of investment in subsidiary company

Provision for income taxes (note 4)

—current

—deferred

Minority interests in operations of subsidiaries

NET INCOME for the year

			Comparative 1968
		$6,310,740	$5,038,183
	$1,613,418		983,880
	103,345		96,827
		1,716,763	1,080,707
		4,593,977	3,957,476
	2,401,380		1,869,179
	(386,294)		(143,163)
	2,015,086		1,726,016
	230,193		165,112
	43,945		14,332
		2,289,224	1,905,460
		2,304,753	2,052,016
		350,964	299,018
		1,953,789	1,752,998
		—	9,287
		23,014	—
		1,976,803	1,762,285
	—		145,000
	998,000		735,000
		998,000	880,000
		978,803	882,285
		14,053	12,250
		$ 964,750	$ 870,035

consolidated statement of source and use of funds

for the year ended September 30, 1969

		Comparative 1968
OPERATIONS		
Net income for the year	**$ 964,750**	$ 870,035
Depreciation and amortization (note 2)	**487,862**	419,154
Deferred income taxes (note 4)	**998,000**	735,000
	2,450,612	2,024,189
Annual payments on long-term debt	**1,113,062**	1,129,561
Funds available from operations	**1,337,550**	894,628
Dividends paid	**533,356**	529,768
Funds available from operations for re-investment	**804,194**	364,860
NEW FINANCING		
Additional long-term debt	**13,278,060**	9,466,508
Issues of capital stock	**151,020**	75,722
Increase in minority interest in subsidiary company	**1,106**	12,250
INCREASE (DECREASE) in bank indebtedness and other net current obligations	**2,559,860**	(1,621,085)
	$16,794,240	$8,298,255
REPRESENTED BY		
Investments in notes and deposit certificates	**$ 5,000,000**	—
Redemption of preference shares	**42,763**	—
Increased investment in properties	**10,371,970**	$8,101,179
Increased investment in affiliated companies	**1,004,870**	—
Increase in other assets	**374,637**	197,076
	$16,794,240	$8,298,255

notes to consolidated financial statements for the year ended September 30, 1969

1. PRINCIPLES OF CONSOLIDATION
   The consolidated financial statements include the accounts of all subsidiary companies.

2. DEPRECIATION
   In 1969 the Company adopted the sinking fund method of depreciating buildings in lieu of the 2% straight-line method used in prior years and the 1968 accounts have been restated to reflect depreciation on this basis. Under the sinking fund method an amount increasing at the rate of 6% compounded annually is charged to income so as to fully depreciate the buildings based on a 40 year life. As a result of this change the depreciation charge has been reduced by $451,749 and $404,143 in 1969 and 1968 respectively.

3. LONG TERM DEBT

Mortgages Payable	$18,241,439
First Mortgage Sinking Fund Bonds	
Series A, 6¾%, due August 1, 1982—$125,000 repayable annually	2,415,000
1983 Series, due December 1, 1983	
5⅞%, U.S. $2,812,500—repayable in semi-annual instalments of U.S. $62,500	3,043,815
6⅜%, repayable in semi-annual instalments of $12,500	543,500
1987 Series due January 9, 1987	
6⅜%, U.S. $2,737,500—repayable in semi-annual instalments of U.S. $52,500	2,958,167
1988 Series, due August 1, 1988	
7-15/16%, U.S. $2,000,000—U.S. $65,000 repayable on or before December 1, 1969 and thereafter repayable in semi-annual instalments of U.S. $32,500	2,141,944
1991 Series, due February 1, 1991	
8½%, $130,000 repayable on or before August 1, 1971 and thereafter repayable in semi-annual instalments of $65,000	4,000,000
8%, U.S. $4,000,000 will be borrowed, subject to the fulfillment of certain conditions, not later than October 31, 1970, U.S. $130,000 will be repayable on or before August 1, 1971 and thereafter repayable in semi-annual instalments of U.S. $65,000.	
Sinking Fund Debentures	
8%, Series A, due November 1, 1991—repayable in annual instalments of $227,500 commencing in 1973	7,000,000
Notes Payable	
9¼%, (subject to review annually under certain conditions) repayable September 26, 1971	2,000,000
6½%-7½%, repayable $117,000 April 1, 1985 and $118,000 December 1, 1987	235,000
Unsecured Advance from Parent Company	
7⅜%, U.S. $1,800,000 repayable December 4, 1972	1,944,000
	$44,522,865

   Long term debt payable in United States funds has been expressed in Canadian dollars at the rate of exchange prevailing when the funds were received.

   Mortgages payable are subject to interest rates varying from 5¾ to 9¼%, mature at various dates in the fiscal years 1970 to 1994 and are repayable approximately as follows:

Fiscal Year		Fiscal Year	
1970	$978,566	1973	$ 639,664
1971	675,710	1974	844,490
1972	688,129	Subsequent to 1974	14,414,880
			$18,241,439

4. INCOME TAXES
   The Company claims maximum capital cost allowances for income tax purposes which exceed recorded depreciation and, in addition, claims, in the year incurred, interest and other carrying charges capitalized in the accounts. Prior to 1969, income taxes so deferred were not recorded with the exception of an amount of $500,000 set aside in 1963 and prior years.

In 1969 the Company adopted the policy of recording deferred income taxes in accordance with the recommendations issued by the Canadian Institute of Chartered Accountants; the 1968 accounts have also been restated on a comparable basis with 1969.

Income taxes deferred in the years prior to 1968 aggregating $2,057,000 have not been recorded in the accounts; the amount of $500,000 referred to above has been returned to surplus, as restated, in 1968.

5. CAPITAL STOCK

Authorized

237,675 Preference Shares with a par value of $25 each, issuable in series
5,000,000 Common Shares without par value

Issued and fully paid

97,675 6%, Cumulative, Redeemable, Preference Shares, Series A	$ 2,441,875
3,853,535 Common Shares	9,998,421
	$12,440,296

Preference Shares
2,325 Preference Shares were purchased for cancellation during the year and the authorized and issued share capital reduced accordingly.

The Preference Shares, Series A are redeemable at the option of the Company at $26 per share up to and including June 1, 1972 and thereafter at reducing amounts.

The Company is required to set aside on January 1, in each year, beginning 1969 an amount equal to not more than $50,000 to be used under certain conditions as a fund for the purchase for cancellation of Preference Shares Series A. The amounts set aside and not used for the purchase of such Preference Shares shall at no time aggregate more than $100,000.

Common Shares
44,220 Common Shares were issued during the year for an aggregate consideration of $151,020; of these shares 34,250 were issued to holders of the 1960 Share Purchase Warrants, 2,470 were issued to holders of the 1966 Share Purchase Warrants and 7,500 were issued under stock options granted to executives of the Company.

895,745 Common Shares are reserved for issuance against the exercise of Share Purchase Warrants as follows:

Shares Reserved	Description of Warrant	Exercise Price Per Share	Expiry Date
50,965	1960 Share Purchase Warrants issued with Series A Bonds	$3.50	August 1, 1970
97,280	1966 Share Purchase Warrants issued with Preference Shares, Series A	3.50	June 30, 1976
7,500	1968 Share Purchase Warrants issued with 1988 Series Bonds	3.50	June 30, 1976
40,000	1969 Share Purchase Warrants issued or to be issued with 1991 Series Bonds; warrants for 20,000 Common Shares were issued at September 30, 1969	7.25	December 31, 1976
700,000	Debenture Share Purchase Warrants issued with Sinking Fund Debentures, Series A	6.00	October 31, 1976

25,000 Common Shares are reserved for issuance under Stock options granted during the year to executives of the Company at $4.50 per share exercisable during the five years ending July 31, 1974.

6. DIVIDEND RESTRICTIONS

The Trust Deeds and Trust Indenture under which the First Mortgage Bonds and Sinking Fund Debentures were issued contain certain restrictions on the declaration or payment of dividends on Common Shares so long as any of the said bonds or debentures are outstanding.

The conditions attaching to the Preference Shares, Series A, contain certain restrictions on the declaration or payment of dividends on the Common Shares.

7. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate remuneration paid during the year to directors and senior officers of the Company (as defined in the Ontario Corporations Act) amounted to $126,075.

8. LAND LEASES

The Company is committed under land leases on two revenue producing properties which mature in the years 2026 and 2058 respectively. The minimum annual rental obligation under such leases aggregates $56,881 to the year 2026 and $8,881 thereafter.

9. CAPITAL COMMITMENTS

Capital commitments at September 30, 1969 for the acquisition and/or development of properties amounted to approximately $11,000,000.

THE SCOPE OF M.E.P.C.

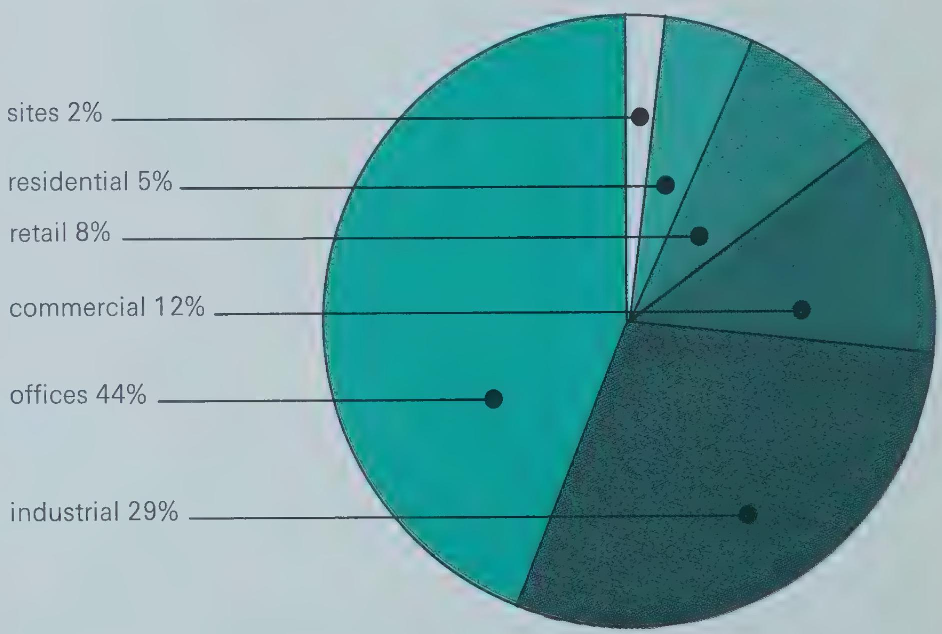
The main objective of M.E.P.C. and its subsidiaries is the steady accumulation of income-producing real estate.

Such accumulation has been achieved in a variety of ways, but typical transactions usually involve one of the following:

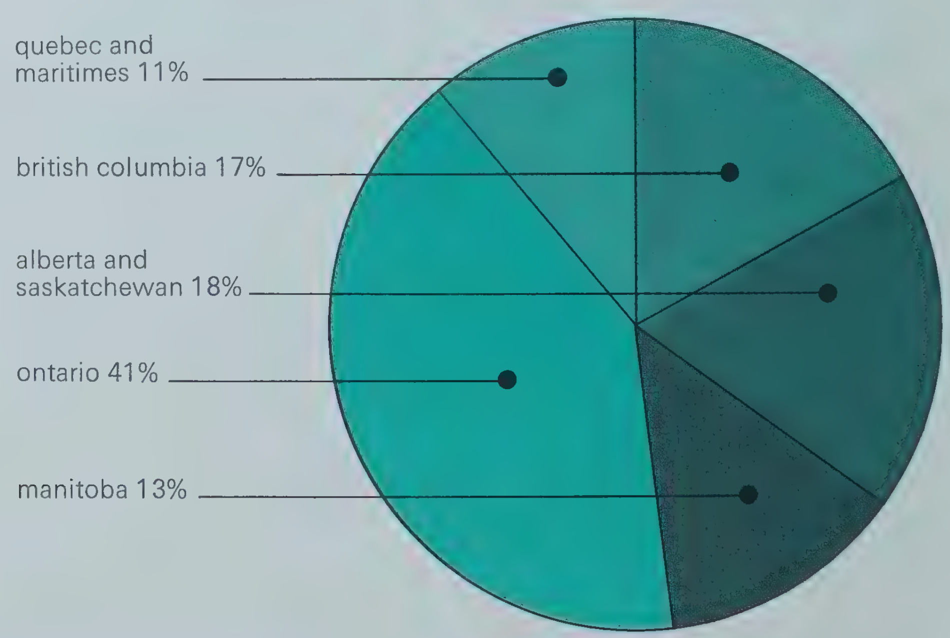
1. Acquisition of existing real estate investments.
2. Acquisition and lease-back.
3. Development and lease-back.
4. Site acquisition and its subsequent development with or without a prior tenancy commitment.
5. Partnership ventures.
6. Site assembly for future development.

It is the Company's policy to arrange its leases to enable it to review a substantial portion of its rents periodically and therefore to take advantage of the steady rise in rentals which has characterized the real estate industry in Canada during recent years and is expected to continue as costs rise.

The nature of the real estate owned by the Company is well diversified and can be broken down as follows:

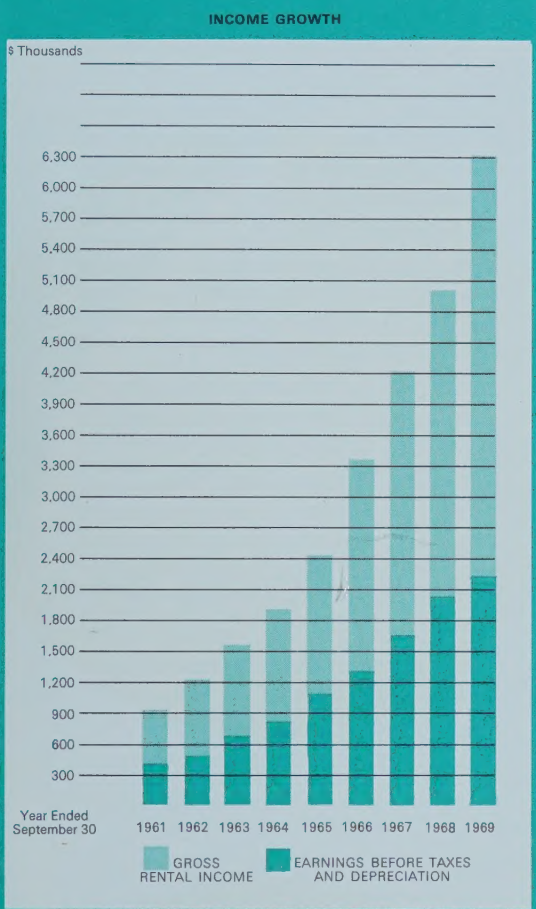


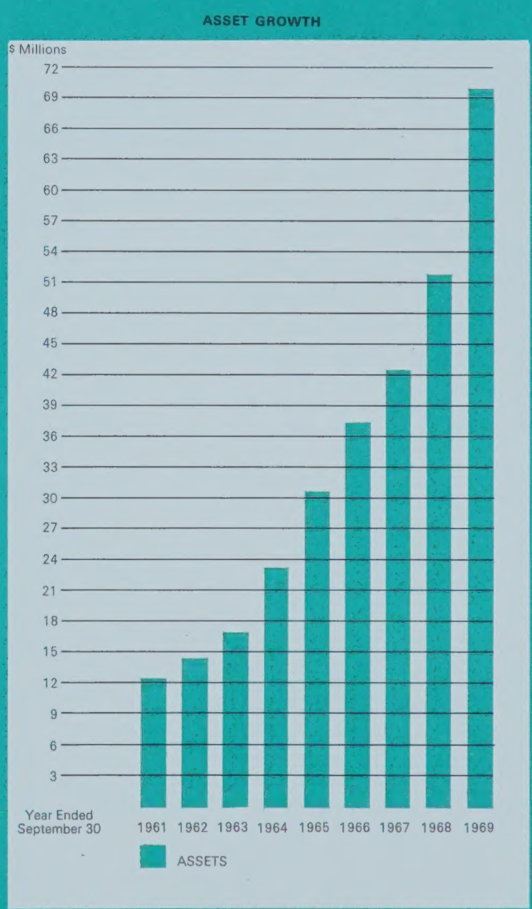
The Company has acquired and developed properties throughout Canada so that it may take advantage of favourable conditions in particular areas as illustrated in the chart below.



The percentages shown in the two charts above are based on the estimated market value of the Company's portfolio.

M.E.P.C. CANADIAN PROPERTIES LIMITED AND SUBSIDIARY COMPANIES





SUMMARY OF EARNINGS FOR THE FIVE YEARS ENDED SEPTEMBER 30, 1969

	Year Ended September 30				
	1965	1966	1967	1968	1969
Earnings from operations	$1,933,228	$2,492,063	$3,054,657	$3,775,069	$4,328,800
Interest	832,550	1,138,073	1,398,307	1,726,016	2,015,086
Depreciation on straight-line basis	380,413	488,954	604,509	703,161	802,713
Income taxes paid			120,000	145,000	
Net income before changes in accounting principles described in notes 2 and 4 to the financial statements	$ 720,265	$ 865,036	$ 931,841	1,200,892	1,511,001
Reduction in depreciation (note 2)				404,143	451,749
Deferred income taxes (note 4)				(735,000)	(998,000)
Net income after changes				$ 870,035	$ 964,750

Metropolitan Estate and Property Corporation Limited

Brook House, 113 Park Lane, London W.1

(Parent Company)

Directors

C. E. M. Hardie, C.B.E., F.C.A.

J. Scrimgeour, C.M.G., O.B.E.

A. Kennedy Kisch, M.A.

R. H. Sheppard, F.A.I.

R. J. Dickinson, M.A.

W. E. Philp, F.R.I.C.S., F.A.I.

J. C. Hawkes, F.R.I.C.S.

M. R. Creasey, F.A.I.

Bernard Dufton, F.C.A.

The Hon. Angus Ogilvy

P. A. Anker, F.R.I.C.S.

W. M. Balch, F.R.I.C.S.

Metropolitan Estate and Property Corporation Limited is one of the larger property companies in the United Kingdom. Although most of the Company's holdings are located in the Greater London area, substantial investments have been made in the West Country, the Manchester area and North East England.

The total assets of the Metropolitan Group now exceed $500,000,000.

As well as its investment in Canada where Metropolitan Estate and Property Corporation Limited owns approximately 68 percent of the common shares of M.E.P.C. Canadian Properties Limited, it has additional interests in the Republic of Ireland and Australia.

M.E.P.C. Canadian Properties Limited

Head Office: *365 Bay Street, Toronto*

Branch Offices

Eastern Canada
710 Place d'Youville, Quebec City, P.Q.
R. W. Heslop, F.R.I.

Ottawa
140 Wellington Street, Ottawa, Ontario
M. E. Billinghurst, A.R.I.C.S.

Toronto
365 Bay Street, Toronto, Ontario
G. Church, A.R.I.C.S.

Winnipeg
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A. K. Stephens

Calgary
627 6th Avenue S.W., Calgary, Alberta
T. F. Prete

Vancouver
1200 West Pender Street, Vancouver, British Columbia
R. A. Adam

Victoria
715 Yates Street, Victoria, British Columbia
J. W. E. Hayes

Subsidiary and Associated Companies

Britannia Property Developments Limited

Hanover Estates Limited

M.E.P.C. Maritime Properties Limited

Mepcon Estates Limited

M.E.P.C. Pacific Properties Limited

Portesville Limitée

La Société Immobilière Mirabeau Limitée

Turf Development Company Limited

The activities of M.E.P.C. Canadian Properties Limited and its subsidiary and associated companies are entirely related to property investment and development.

Currently under development in Western Canada.